

Tables Indicating the Basis for Revenue Estimates

ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2006 to FY 2012

(in thousands of dollars)

TYPE OF TAX	ACTUAL		ESTIMATED						
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
General Excise & Use 4/ & 7/	\$1,900,377	\$2,136,603	\$2,325,350	\$2,464,392	\$2,679,708	\$2,799,575	\$2,960,807	\$3,113,073	\$3,252,700
Income - Individual	1,168,570	1,381,059	1,447,674	1,558,566	1,654,382	1,745,062	1,845,498	1,934,011	2,038,282
Income - Corporation	56,653	85,605	86,668	88,695	85,403	81,663	81,863	78,005	79,194
Public Service Company	99,505	108,686	116,410	128,189	139,992	151,830	163,763	175,815	188,059
Insurance Premiums	78,142	83,077	83,835	87,339	91,123	96,086	100,659	102,947	104,910
Tobacco & Licenses 1/	78,400	84,079	84,066	84,738	85,998	87,553	89,433	91,507	93,694
Liquor & Permits	41,250	43,737	45,248	46,513	47,721	48,929	50,109	51,307	52,512
Banks & Other Fin Corps 5/	(534)	36,520	11,202	13,412	15,304	16,981	18,537	19,996	21,424
Inheritance & Estate 2/	9,830	12,712	-	-	-	-	-	-	-
Conveyance 6/	7,883	12,291	20,902	24,891	29,730	35,734	43,223	52,573	64,250
Miscellaneous	681	781	791	795	798	800	803	806	808
Transient Accommodation Tax 3/	5,628	12,389	15,439	17,861	16,577	18,819	21,088	23,414	25,826
NET TOTAL	\$3,446,385	\$3,997,539	\$4,237,585	\$4,515,391	\$4,846,736	\$5,083,032	\$5,375,783	\$5,643,454	\$5,921,659
GROWTH RATE	8.3%	16.0%	6.0%	6.6%	7.3%	4.9%	5.8%	5.0%	4.9%

Notes:

1/ Act 246, SLH 2002, raises the cigarette tax to 6 cents each on October 1, 2002; to 6.5 cents on July 1, 2003; and to 7 cents on July 1, 2004.

2/ Federal Economic Growth and Tax Relief Act of 2001 phases out the federal estate tax and the state credit.

3/ Deposits of 44.8% of TAT revenues to counties (Act 156, SLH 1998); 32.6% to tourism special fund and 5.3% to TAT trust fund (Act 250, SLH 2002); 17.3% to convention center enterprise fund (Act 253, SLH 2002); all net of general fund deposits of excess of fund ceilings. Act 235, SLH 2005, increases allocation to tourism special fund to 34.2% and repeals TAT trust fund, effective on July 1, 2007.

4/ Act 100, SLH 2003, provides a nonrefundable attractions & educational facilities tax credit equal to 100% of certain costs incurred after May 31, 2003, & before June 1, 2009, for the development of such facilities at Ko Olina Resort & Marina & the Makaha Resort. Of the maximum \$7.5 million credit per year, the General Fund loss is estimated at \$4 million.

5/ Transfers \$16.5 million of the franchise tax to the Litigated Claims Fund.

6/ Act 156, SLH 2004, increases conveyance tax rates based on a sliding scale. Deposits of 10% of conveyance tax revenues to land conservation fund; 30% to rental housing trust fund; 25% to natural area reserve fund.

7/ FY 2008 includes \$30 million, estimated spillover from June 30, 2007 falling on a weekend. FY 2012 excludes \$30 million, due to June 30, 2012 falling on a weekend.

INDIVIDUAL INCOME TAX
(in Thousands of Dollars)

	Actual FY 2005	11/04 Estimate Amount	As % of Actual	11/03 Estimate Amount	As % of Actual
Withholding Tax	\$1,209,740	\$1,235,697	102.1%	\$1,243,215	102.8%
Decl. of Estimated Tax	\$332,808	\$289,712	87.1%	\$76,286	22.9%
Payment w/Final Return	\$152,919	\$153,253	100.2%	\$205,873	134.6%
Amount of Refunds	(\$313,987)	(\$366,794)	116.8%	(\$291,823)	92.9%
Election Campaign Fund	(\$220)	(\$268)	121.7%	(\$287)	130.7%
School Repair	(\$114)	(\$119)	104.4%	(\$122)	106.7%
Public Libraries Fund	(\$87)	n/a		n/a	
NET TOTAL	\$1,381,059	\$1,311,482	95.0%	\$1,233,142	89.3%

Tax rates: 1.4% on first \$2,000; 3.2% on next \$2,000; 5.5% on next \$4,000; 6.4% on next \$4,000; 6.8% on next \$4,000; 7.2% on next \$4,000; 7.6% on next \$10,000; 7.9% on next \$10,000; 8.25% over \$40,000.

Head of Household: 1.4% on first \$3,000; 3.2% on next \$3,000; 5.5% on next \$6,000; 6.4% on next \$6,000; 6.8% on next \$6,000; 7.2% on next \$4,000; 7.6% on next \$15,000; 7.9% on next \$15,000; 8.25% over \$60,000.

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CORPORATION INCOME TAX
(in Thousands of Dollars)

	Actual FY 2005	11/04 Estimate Amount	As % of Actual	11/03 Estimate Amount	As % of Actual
Decl. of Estimated Tax	\$126,863	\$101,894	80.3%	\$60,238	47.5%
Payment w/Final Return	\$19,413	\$13,923	71.7%	\$6,532	33.6%
Amount of Refunds	(\$60,672)	(\$50,630)	83.4%	(\$31,810)	52.4%
NET TOTAL	\$85,605	\$65,188	76.2%	\$34,960	40.8%

Tax Rates: 4.40% of taxable income up to \$25,000; 5.40% on next \$75,000;
6.40% over \$100,000.

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INDIVIDUAL INCOME TAX
(In Thousands of Dollars)

	Actual FY 2005	Estimated FY 2006	Estimated FY 2007	Estimated FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated FY 2012
Withholding Tax	\$1,209,740	\$1,268,091	\$1,365,227	\$1,449,158	\$1,528,589	\$1,616,566	\$1,694,099	\$1,785,435
Decl. of Estimated Tax	\$332,808	\$348,861	\$375,584	\$398,673	\$420,526	\$444,729	\$466,059	\$491,186
Payment w/Final Return	\$152,919	\$160,295	\$172,574	\$183,183	\$193,224	\$204,344	\$214,145	\$225,691
Amount of Refunds	(\$313,987)	(\$329,148)	(\$354,389)	(\$376,198)	(\$396,838)	(\$419,698)	(\$439,845)	(\$463,578)
Election Campaign Fund	(\$220)	(\$222)	(\$224)	(\$227)	(\$229)	(\$231)	(\$234)	(\$236)
School Repair	(\$114)	(\$115)	(\$116)	(\$117)	(\$119)	(\$120)	(\$121)	(\$122)
Public Libraries Fund	(\$87)	(\$88)	(\$89)	(\$90)	(\$91)	(\$91)	(\$92)	(\$93)
NET TOTAL	\$1,381,059	\$1,447,674	\$1,558,566	\$1,654,382	\$1,745,062	\$1,845,498	\$1,934,011	\$2,038,282

Tax rates: 1.4% on first \$2,000; 3.2% on next \$2,000; 5.5% on next \$4,000; 6.4% on next \$4,000; 6.8% on next \$4,000; 7.2% on next \$4,000; 7.6% on next \$10,000; 7.9% on next \$10,000; 8.25% over \$40,000.

Head of Household: 1.4% on first \$3,000; 3.2% on next \$3,000; 5.5% on next \$6,000; 6.4% on next \$6,000; 6.8% on next \$6,000; 7.2% on next \$4,000; 7.6% on next \$15,000; 7.9% on next \$15,000; 8.25% over \$60,000.

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CORPORATION INCOME TAX
(In Thousands of Dollars)

	Actual FY 2005	Estimated FY 2006	Estimated FY 2007	Estimated FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated FY 2012
Decl of Estimated Tax	\$126,863	\$128,439	\$131,443	\$126,564	\$96,022	\$96,257	\$91,720	\$93,118
Payment w/Final Return	\$19,413	\$19,655	\$20,114	\$19,368	\$18,520	\$18,565	\$17,690	\$17,960
Amount of Refunds	(\$60,672)	(\$61,425)	(\$62,862)	(\$60,529)	(\$32,878)	(\$32,959)	(\$31,405)	(\$31,884)
NET TOTAL	\$85,605	\$86,668	\$88,695	\$85,403	\$81,663	\$81,863	\$78,005	\$79,194

Tax Rates: 4.40% of taxable income up to \$25,000; 5.40% on next \$75,000; 6.40% over \$100,000.

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LEGAL REFERENCE AND EFFECTIVE DATE OF LATEST REVISION FOR STATE GENERAL FUND TAX REVENUES		
Type of Tax	Legal Reference HRS	Revision Date
General Excise	Chapter 237	06/04/03
Use	Chapter 238	01/01/03
General Excise Lic. & Fees	Chapter 237	07/03/96
Banks & other Financial Corp.	Chapter 241	06/01/97
Income - Corporation	Chapter 235	01/01/04
Income - Individual	Chapter 235	07/01/04
Inheritance & Estate	Chapter 236	01/01/83
Insurance Premiums	Chapter 431	01/01/99
Liquor & Permits	Chapter 244D	07/01/01
Tobacco & Licenses	Chapter 245	07/01/03
Public Service Company	Chapter 239	10/01/01
Conveyance	Chapter 247	07/01/05
Fuel - Retail Permits	Chapter 243	07/01/04
R. P. Appeal Deposits	Chapter 232	04/11/89
Transient Accommodations	Chapter 237D	07/01/05
Vehicle Surcharge	Chapter 251	10/01/01

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11/21/2005

NOTIFICATION OF USE OF REVENUE PROJECTIONS THAT DIFFER FROM PROJECTIONS PREPARED BY THE COUNCIL ON REVENUES

Pursuant to Article VII, Section 7 of the Constitution of the State of Hawaii, and Section 37-112(b) of the Hawaii Revised Statutes, the Governor hereby makes public the fact that the Administration's general fund financial plan for the fiscal biennium 2005-2007 and the planning period 2007-2011 uses general fund tax revenues projections that differ from projections prepared by the Council on Revenues (COR) on September 6, 2005.

Reasons for Using the Differing Revenue Estimates

On November 3, 2005, the COR wrote to the Governor regarding their latest forecast of total personal income (TPI)¹. The COR noted that the economy continues to grow strongly, and that the U.S. Bureau of Economic Analysis revised the growth rate of TPI for Hawaii from 7.8% to 8.0% for calendar year 2004. The U.S. Bureau of Economic Analysis estimated that total personal income grew by 8.2% during the first half of calendar year 2005. As a result, the COR revised its forecasts of total personal income growth rates upward, from 7.3% to 8.2% for calendar year 2005, and from 6.3% to 7.0% for calendar year 2006 in November 2005.

¹ It should be noted that total personal income growth is a key factor in the COR's forecast model of general fund tax revenue.

In addition, the Department of Taxation (TAX) received a one-time \$40 million corporate income tax payment in September 2005.

Based on the COR's latest estimates of growth in total personal income and the \$40 million corporate income tax payment, TAX has re-estimated general fund tax revenues using the COR's tax revenue estimating econometric model. The results are as follows:

<u>Fiscal Year</u>	<u>Thousand of Dollars</u>	<u>% Growth From Previous Year</u>
2006	\$4,311,441	7.9%
2007	\$4,584,514	6.3%
2008	\$4,918,518	7.3%
2009	\$5,156,576	4.8%
2010	\$5,450,522	5.7%
2011	\$5,719,115	4.9%

Details of the re-estimated forecast are presented in the attached Table 1. The specific economic assumptions used in the model are shown in the attached Table 2.

Comparison of COR and Administration General Fund Tax Revenue Projections

The following is a comparison of the COR's September 6, 2005 general fund tax revenue projections and the Administration re-estimated projections based on the COR's latest growth rates of TPI and accounting for the one-time corporation income tax payment:

FY	*Administration Projection*		*COR 9/6/05 Projection*		Difference
	Amount (\$1,000)	% Growth Previous Yr	Amount (\$1,000)	% Growth Previous Yr	
2006	\$4,311,441	7.9%	\$4,237,585	6.0%	\$73,856
2007	\$4,584,514	6.3%	\$4,515,391	6.6%	\$69,123
2008	\$4,918,518	7.3%	\$4,846,736	7.3%	\$71,782
2009	\$5,156,576	4.8%	\$5,083,032	4.9%	\$73,544
2010	\$5,450,522	5.7%	\$5,375,783	5.8%	\$74,739
2011	\$5,719,115	4.9%	\$5,643,454	5.0%	\$75,661

Year-to-Date Tax Revenue Collections

For the first five months of FY 06, State general fund tax collections amounted to \$1.77 billion, an increase of 13.7% over the previous year figure. To achieve the 7.9% growth rate for FY 06 as used in the Administration's financial plan, the required cumulative growth rate for the remaining seven months of the current fiscal year (December 2005 to June 2006) would have to be 4.2%. This growth rate is substantially less than the current cumulative growth rate of 13.7%. Therefore, the 7.9% growth rate for FY 06 can be considered to be a conservative estimate.

Table 4A
ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2006 to FY 2012
MODEL 1: CURRENT MODEL
Adjustments above the Line

Council MEAN Forecasts

(in thousands of dollars)

TYPE OF TAX	ACTUAL		ESTIMATED						
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
General Excise & Use 4/ & 7/	\$1,900,377	\$2,136,603	\$2,339,272	\$2,494,354	\$2,707,901	\$2,825,653	\$2,984,612	\$3,134,223	\$3,271,101
Income - Individual	1,168,570	1,381,059	1,467,136	1,596,516	1,696,172	1,790,134	1,893,434	1,984,914	2,091,956
Income - Corporation 8/	56,653	85,605	126,668	88,695	85,403	81,663	81,863	78,005	79,194
Public Service Company	99,505	108,686	116,691	129,005	141,357	153,754	166,255	178,883	191,710
Insurance Premiums	78,142	83,077	83,835	87,339	91,123	96,086	100,659	102,947	104,910
Tobacco & Licenses 1/	78,400	84,079	84,066	84,738	85,998	87,553	89,433	91,507	93,694
Liquor & Permits	41,250	43,737	45,248	46,513	47,721	48,929	50,109	51,307	52,512
Banks & Other Fin Corps 5/	(534)	36,520	11,393	13,807	15,738	17,451	19,043	20,536	21,999
Inheritance & Estate 2/	9,830	12,712	-	-	-	-	-	-	-
Conveyance 6/	7,883	12,291	20,902	24,891	29,730	35,734	43,223	52,573	64,250
Miscellaneous	681	781	791	795	798	800	803	806	808
Transient Accommodation Tax 3/	5,628	12,389	15,439	17,861	16,577	18,819	21,088	23,414	25,826
NET TOTAL	\$3,446,385	\$3,997,539	\$4,311,441	\$4,584,514	\$4,918,518	\$5,156,576	\$5,450,522	\$5,719,115	\$5,997,960
GROWTH RATE	8.3%	16.0%	7.9%	6.3%	7.3%	4.8%	5.7%	4.9%	4.9%

Notes:

1/ Act 246, SLH 2002, raises the cigarette tax to 6 cents each on October 1, 2002; to 6.5 cents on July 1, 2003; and to 7 cents on July 1, 2004.

2/ Federal Economic Growth and Tax Relief Act of 2001 phases out the federal estate tax and the state credit.

3/ Deposits of 44.8% of TAT revenues to counties (Act 156, SLH 1998); 32.6% to tourism special fund and 5.3% to TAT trust fund (Act 250, SLH 2002); 17.3% to convention center enterprise fund (Act 253, SLH 2002); all net of general fund deposits of excess of fund ceilings. Act 235, SLH 2005, increases allocation to tourism special fund to 34.2% and repeals TAT trust fund, effective on July 1, 2007.

4/ Act 100, SLH 2003, provides a nonrefundable attractions & educational facilities tax credit equal to 100% of certain costs incurred after May 31, 2003, & before June 1, 2009, for the development of such facilities at Ko Olina Resort & Marina & the Makaha Resort. Of the maximum \$7.5 million credit per year, the General Fund loss is estimated at \$4 million.

5/ Transfers \$16.5 million of the franchise tax to the Litigated Claims Fund.

6/ Act 156, SLH 2004, increases conveyance tax rates based on a sliding scale. Deposits of 10% of conveyance tax revenues to land conservation fund; 30% to rental housing trust fund; 25% to natural area reserve fund.

7/ FY 2008 includes \$30 million, estimated spillover from June 30, 2007 falling on a weekend. FY 2012 excludes \$30 million, due to June 30, 2012 falling on a weekend.

8/ FY 2006 includes a large one-time estimated tax payment.

Table 2

FORECASTS OF KEY ECONOMIC INDICATORS: FY 2006 TO FY 2012

A. VALUE

Council MEAN Forecasts

Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Total Personal Income (\$1982-1984 mil.)	22,963	23,767	24,300			26,081	26,707
Total Personal Income (\$ mil.)	46,090	49,225	51,800			60,290	63,365
Construction Completed (\$ mil.)	5,353	5,540	5,500			5,434	5,543
Honolulu CPIU (1982-1984=100)	201	208	214	220	226	232	238
Visitor Arrivals (1,000)	7,418	7,573	7,725	7,879	8,029	8,174	8,321
GDP in Current Dollars (\$ bil.)	12,738	13,375	14,017	14,676	15,351	16,057	16,796
GDP Deflator (2000=100)	114	117	119	122	125	128	131
Calendar Year Wages (\$ mil.)	21,945	23,262	24,588	25,915	27,341	28,790	30,316
Visitor Expenditures (\$ mil.)	12,186	12,844	13,474	14,107	14,742	15,390	16,068
Real GSP - Hawaii (\$1996 mil.)	46,075	47,180	48,313	49,424	50,610	51,774	53,017

B. ANNUAL PERCENTAGE GROWTH RATE

Total Personal Income (\$1982-1984 mil.)	4.0	3.5	2.4	2.3	2.4	2.3	2.4
Total Personal Income (\$ mil.)	7.6	6.8	5.4	5.2	5.2	5.0	5.1
Construction Completed (\$ mil.)	5.5	3.5	0.1	-1.4	1.4	-2.0	2.0
Honolulu CPIU (1982-1984=100)	3.6	3.3	3.0	2.8	2.7	2.6	2.6
Visitor Arrivals (1,000)	3.8	2.1	2.0	2.0	1.9	1.8	1.8
GDP in Current Dollars (\$ bil.)	5.3	5.0	4.8	4.7	4.6	4.6	4.6
GDP Deflator (2000=100)	2.6	2.5	2.3	2.3	2.2	2.3	2.3
Calendar Year Wages (\$ mil.)	6.7	6.0	5.7	5.4	5.5	5.3	5.3
Visitor Expenditures (\$ mil.)	7.0	5.4	4.9	4.7	4.5	4.4	4.4
Real GSP - Hawaii (\$1996 mil.)	2.9	2.4	2.4	2.3	2.4	2.3	2.4

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